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Economic Intelligence Weekly 16 Apr 75 ER EIW 75-15

Secret
No Foreign Dissem

Economic Intelligence Weekly

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ER EIW 75-15
16 April 1975

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Date Impossible to Determine

Secret

No Foreign Dissem

ECONOMIC INTELLIGENCE WEEKLY

16 April 1975

Overview

Protectionist Moves by Developed Countries are being made hesitantly. Restrictions usually have been aimed at only a few consumer-oriented goods such as autos, textiles, clothing, and some foodstuffs. Although several countries with large current account deficits and high unemployment have turned to or are considering import controls, the threat of widespread restrictions may abate in coming months with the spread of a more optimistic economic outlook. The countries imposing restrictions have stressed their temporary nature, and their trading partners have so far shown great forbearance. Only one case of direct retaliation has occurred; Ankara reacted to British quotas on cotton imports by temporarily banning imports from the United Kingdom.

Australia and Finland are the only two countries to impose general import restrictions -- at the same time that Italy and Denmark were relaxing the controls enforced last year. The Finnish government has been shaken by a $1.4 billion current account deficit in 1974 and by a staggering $500 million deficit in the first two months of 1975. On 22 March, Helsinki initiated an import deposit scheme on about half its imports, mostly consumer goods. [redacted] 25X6

25X6 [redacted]

Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892. 25X1A

Most nations have been satisfied with monitoring, jawboning, or imposing limited restrictions.

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- [redacted]
- France has banned imports of Italian wine, and its steel federation is trying -- with little success-- to push the European Coal and Steel Community into protecting steel.

Exports to OPEC by the Seven Major Developed Countries increased 81% last year. American and Japanese exporters were the most aggressive, accounting for 40% of the $15 billion increase in sales to OPEC and substantially increasing their shares of the market. The remaining five -- the United Kingdom, West Germany, France, Canada, and Italy -- just about maintained their shares in the OPEC markets, as did LDCs and Communist countries. The smaller developed countries did poorly, accounting for only 9% of the increase in sales to OPEC.

Soviet Borrowing in the Eurodollar Market will be used to help finance the growing volume of equipment orders placed in the West, especially in the United States, on a cash basis. A consortium of European and US banks has completed arrangements for a 5-1/2-year, $250 million Eurodollar loan to the USSR, raising the total to $350 million borrowed in the Eurodollar market in the last four months. (Unclassified)

Articles

EAST ASIA: EXPORTS TUMBLE

Exports of the smaller East Asian countries – Taiwan, South Korea, Singapore, and Hong Kong – are plummeting, ending more than a decade of rapid expansion. During the 1960s and 1970s, their exports, mainly light manufactures, expanded twice as fast as world trade, permitting the economies to weather global slumps with ease. The current decline reflects the severity of the present world recession, and, to a lesser extent, import restrictions in Australia and Western Europe. South Korea and Taiwan have been hardest hit by the trade falloff, while Singapore has been less affected because of its position as a major entrepot.

The Export Drive

East Asian exports nosedived in the second half of 1974, the volume falling at a 30% annual rate. A sharp contraction in US and Japanese demand, particularly for textiles and electronic products, was the chief cause. These two categories account for roughly two-thirds of East Asian exports. South Korea, with 40% of its sales going to Japan, has been particularly vulnerable to the Japanese downturn. The East Asian countries have not been able to expand their share of the shrinking US market as they did in the 1971 slump. In the past few years, they have upgraded their product lines and in some instances lost a considerable portion of their cost advantage because of currency changes. Both developments have been putting them more directly in competition with US firms.

The timing and severity of the export decline is as follows:

Taiwan – Export volume began dropping in the second quarter of 1974, with the annual rate of decline reaching 60% in the fourth quarter. By early 1975, volume was 40% below the year earlier level.

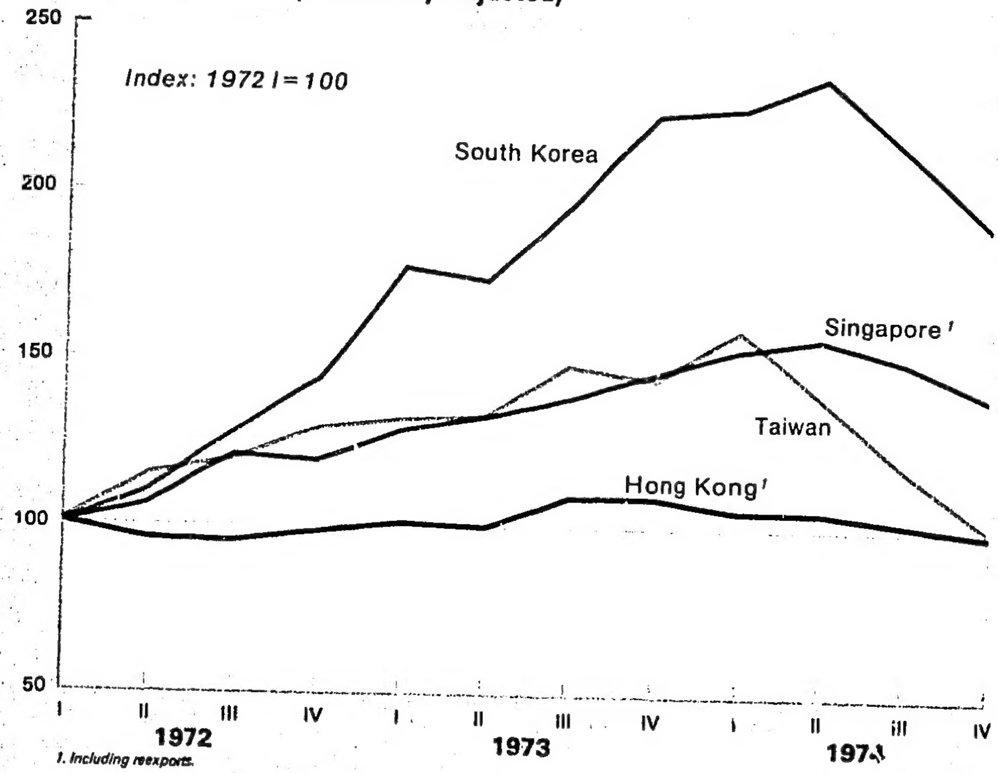
South Korea – After reaching an all-time high in mid-1974, export volume fell at a 23% annual rate in the second half.

Singapore – Export volume climbed through mid-1974, but by yearend had dropped more than 10% below the peak.

Hong Kong – Export volume fell off through most of 1974, ending 10% below the last quarter of 1973.

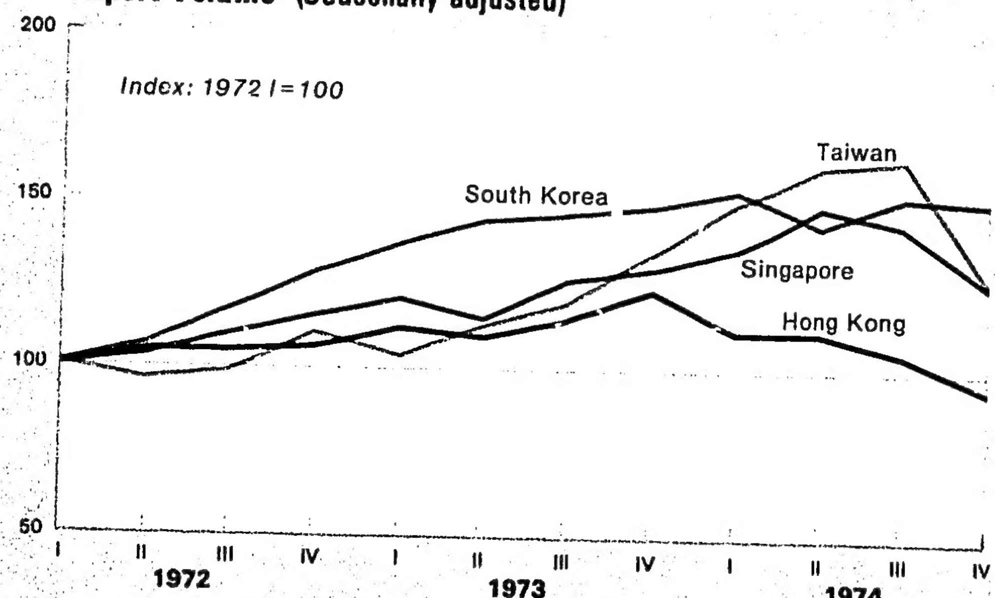
EAST ASIA: TRENDS IN TRADE VOLUME

Export Volume (Seasonally adjusted)



1. Including reexports.

Import Volume (Seasonally adjusted)



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Fragmentary data indicate that the declines continued for all countries into early 1975. Textile exports have been hardest hit. In the fourth quarter of 1974, the value of textile exports was at least one-third below the previous year; the drop in volume was even greater. Exports of consumer electronics, light machinery, and most other manufactured goods have also declined substantially.

Domestic Impact

Because of the fall in exports – the engine of growth in these economies – real GNP in Taiwan, South Korea, and Hong Kong leveled off or declined in the second half of last year. Only Singapore has managed to grow at all since mid-1974. Unemployment in the past nine months has steadily risen (particularly in South Korea) with the reduction in the pace of key industries. All four East Asian governments have shifted fiscal and monetary policy away from restraint to moderate expansion, falling back on the anti-inflationary front.

The falloff in domestic economic activity has resulted in a decline of imports of raw materials, component parts, and intermediate products used largely in the export-oriented industries. Imports of capital equipment also show signs of weakening as unused capacity becomes widespread. The volume of imports fell in the second half of 1974 at an annual rate of 28% below the first half peak. Because import prices in 1974 rose faster than export prices, the composite trade deficit jumped $4 billion, to $6 billion. With the exception of South Korea, financing the deficit has not yet become a major problem. Seoul was among the largest borrowers from the IMF oil facility last year and will need additional funds in 1975.

Outlook

East Asian trade will not revive until late 1975 or early 1976, after the expected upturn in US and Japanese demand. Even then considerable time will be needed for the countries to regain high rates of trade growth as they make the necessary changes in the structure of their exports. We believe the growth rate of their exports, although below the level of the 1960s, will be among the highest of any regional group. (Confidential)■

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MAJOR DEVELOPED COUNTRIES: RISING SHARE IN THE OPEC MARKET

The major developed countries captured nearly three-fourths of the $15 billion increase in world sales to OPEC states last year. The value of the Big Seven's combined exports to OPEC went up 81% from 1973, 2-1/2 times the rate for their other exports. Their inroads into the OPEC market were mainly at the expense of the other developed countries. As a group, the smaller developed countries claimed only 13% of the OPEC market, compared with 16% in 1973, while the LDCs and Communist countries together held on to about 19% of the market.

Key Beneficiaries

Most of the export gains among the major developed countries went to the United States and Japan. Together they accounted for 40% of the increase in world sales to OPEC, improving their combined position from 31% to 34% of the OPEC market. The rest of the major countries showed little change in their market shares. France, West Germany, and Canada gained a little while Italy and the United Kingdom lost slightly.

Share of OPEC Market

Percent

Exporter	1973	1974 (est.)
Major developed countries	65.0	68.2
United States	17.5	18.9
Japan	13.1	15.5
West Germany	11.2	11.3
France	8.3	8.5
United Kingdom	7.8	7.0
Italy	5.8	5.4
Canada	1.5	1.7
Other developed countries	16.0	13.0
LDCs and Communist countries	18.9	18.9

US sales to OPEC were up by more than $3 billion from 1973. More than half of the increase went to two countries, Iran and Venezuela. Roughly one-third of the additional sales of $1 billion to Iran were military equipment, with another $0.5 billion divided between food and transportation equipment. About half of the increase in US sales to Venezuela consisted of machinery and equipment; an additional one-third was chemical products and agricultural goods. The United States also sold several hundred million dollars worth of military goods to Saudi Arabia and large amounts of capital goods and food to all OPEC countries.

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[redacted]

Other Exporters

More than two-fifths of the gain in France's sales came with its former colony, Algeria, where strong trade ties continue. [redacted] 25X6

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[redacted]

Exports to OPEC

	Billion US $		Increase	
	1973	1974	Billion US $	Percent of Total
Total	**20.6**	**35.5**	**14.9**	**100**
Major developed countries	13.4	24.2	10.8	72
United States	3.6	6.7	3.1	21
Japan	2.7	5.5	2.8	19
West Germany	2.3	4.0	1.7	11
France	1.7	3.0	1.3	9
United Kingdom	1.6	2.5	0.9	6
Italy	1.2	1.9	0.7	5
Canada	0.3	0.6	0.3	2
Other developed countries	3.3	4.6	1.3	9
LDC/Communist	3.9	6.7	2.8	19

Prospects

Total world sales to OPEC are expected to reach about $50 billion this year and $60 billion in 1976. The major developed countries should continue to dominate this growing market; the United States and Japan should remain the chief suppliers, with West Germany perhaps gaining in its market share. Competition among the Big Seven is intense because of the prevalence of excess capacity. (Confidential No Foreign Dissem)■

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EGYPT: SERIOUS PROBLEMS STILL HAMPER ECONOMIC PROGRESS

Although Sadat's political and economic flexibility has improved Egypt's long-term economic prospects, Cairo continues to be plagued by economic difficulties, few of which will be ameliorated by recent changes in government.

Developments Since the October War

For a brief period after the October 1973 war, an improved financial situation permitted progress in selected areas. Increased infusions of cash aid from other Arab countries and a sharp upsurge in cotton prices permitted the government to replenish stockpiles of food and other essential commodities and to mount a reconstruction program in the Suez Canal area. A spurt in private investment in real estate and tourist facilities quickly heightened economic activity in major urban centers. Under the auspices of a revitalized petroleum ministry, exploration and development expenditures mounted in the oil sector. Promises of other private investment appeared to augur a continuation of the immediate postwar boom.

Since early 1974, Egypt's financial fortunes have deteriorated. The steep rise in import prices has substantially offset the increase in Arab aid. Recession and balance-of-payments problems in Western Europe have reduced demand for Egyptian goods and presage a reduction in foreign exchange income of $400 million in 1975.

The financial picture has also been darkened by the death of King Faysal of Saudi Arabia, who had provided Egypt with about $500 million annually in cash grants since 1972, frequently overruling his sceptical subordinates. [redacted] 25X6
25X6 [redacted] future levels of Arab aid to Egypt are far more uncertain.

Even if the financial situation improves, capacity constraints will continue to hamper economic growth for some time. Congestion throughout the transportation and distribution system will limit the volume of producer and consumer goods available to Egypt's import-dependent economy. Failure to anticipate chronic hydroelectric production problems at Aswan has begun to pinch power supplies and threaten shortages that could impede industrial output. Lack of hotel capacity has dampened growth in the tourist sector, an important source of foreign exchange.

Sadat will be hard pressed to satisfy consumer demands for a higher standard of living. Recent minor improvements will be insufficient for those who remember higher levels of consumption prior to 1967 and who resent the living standards of the "new elite," mostly foreigners and Egyptians associated with the embryonic private sector. A recurrence of strident consumer complaints may tempt Sadat to favor consumption over state investment.

Outlook

If the Sadat regime can placate consumers and at the same time avoid jeopardizing foreign investment, substantial relief should be forthcoming by 1977 or 1978. Reopening of the Suez Canal, completion of the first phase of the Sumed pipeline, construction of several new luxury hotels, and the development of promising new oil and gas fields could redress unfavorable trade trends and reduce dependence on Arab grants. Expansion of the port of Alexandria, scheduled for completion late in 1977, will eliminate the principal physical obstacle to the importation of goods. Improvements under way in the public production and distribution systems could be completed, permitting the government to maintain higher stocks in state stores. (Confidential)■

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Notes

EC Surplus Wheat Problem

The EC Commission has agreed to subsidize storage during the next 10 months of 1.2 million tons of wheat, mostly low-grade grain suitable for feed. An influx of corn in the past several months has undercut EC support prices for wheat and reduced its use in feed rations. The EC action is unlikely to succeed in strengthening prices; thus intervention agencies probably will need to purchase wheat. More than 2 million tons of EC wheat from the bumper 1974 harvest still is available for export. Foreign commercial demand for this wheat will remain sluggish without an aggressive export subsidy program. (For Official Use Only)

Latin American Sugar Conference

Twenty-one Latin American and Caribbean countries will meet in Puerto Plata, Dominican Republic, on 21-24 April to formally establish a regional sugar producers organization. Concerned that the recent sharp drops in world sugar prices will continue, the participants are expected to explore price stabilizing measures, such as a new international sugar agreement. They are in no position to establish

a cartel along the lines of OPEC because they account for only half the sugar traded on the world free market. The meeting will also review recent market developments and will take up the exchange of information on technology, production, and plans for expansion. (Confidential)

Publications of Interest*

Chile: Implications of the Worsening Trade and Payments Position (ER IM 75-8, April 1975, Confidential No Foreign Dissem)

As a result of low world copper prices, Chile faces a large balance-of-payments deficit in 1975, which it has no chance of financing. Extensive commercial borrowing is precluded by the country's already enormous foreign debt and its low foreign reserves. Foreign aid is small, mainly because of international distaste for the military government. The memorandum analyzes the effect of the prospective deficit on imports, GNP, and domestic economic policy.

Indonesia: Recent Changes in Fortune (ER IR 75-10, April 1975, Confidential)

New economic policies in the late 1960s stabilized the Indonesian economy and set the stage for a record performance in 1973-74. Growth was featured by the oil boom, two good years in agriculture, high prices for non-oil exports, and rapid accumulation of foreign exchange reserves. Growth in the 7%-9% range should be sustained over the next five years even without new commitments of concessionary aid.

The Economic Situation in South Vietnam, March 1975 (ER IR 75-12, April 1975, Secret No Foreign Dissem)

The monthly report for March describes the initial economic impact of (a) the latest Communist offensive and (b) the rapid and disorderly withdrawal of South Vietnamese forces from much of the government's territory.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

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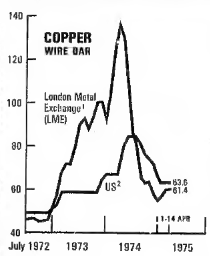
INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price

COPPER WIRE BAR

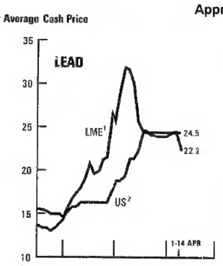
¢ Per Pound



	LME	US
14 Apr	58.9	63.6
7 Apr	61.3	63.6
Mar 75	60.8	63.6
Apr 74	137.5	88.0

LEAD

¢ Per Pound



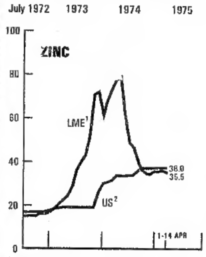
	LME	US
14 Apr	21.0	24.5
7 Apr	21.1	24.5
Mar 75	24.8	24.5
Apr 74	31.8	21.5

SELECTED MATERIALS

SELECTED MATERIALS	Current	Nov 74	Jan 74	Jan 73
Aluminum Major US Prod., ¢/Lb	39.00	39.00	29.00	25.00
Steel Composite, $/LT	289.03	278.43	212.13	209.66
Iron Ore Non-Bessemer Old Range, $/LT	17.53	16.00	12.16	11.96
Chrome Ore Russian, $/MT	135.00	55.50	38.00	45.75
Chrome Ore S. Africa, $/LT	57.50	49.50	33.50	25.50
Ferrochrome US Charge, ¢/Lb	53.50	42.00	22.50	20.00
Nickel Major US Prod. Cathode, $/Lb	2.01	1.85	1.82	1.53
Manganese Ore 48% Mn., $/LT	67.20	54.72	52.80	31.40
Tungsten Ore 65% WO_3, $/ST	5,744.15	6,021.34	2,872.40	2,241.20
Mercury NY, $/76Lb Flask	162.00	254.94	275.54	282.50
Silver LME cash, ¢/Troy Oz	412.86	487.01	380.29	200.15

ZINC

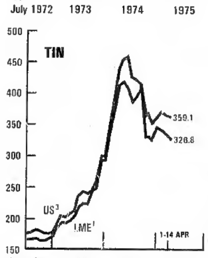
¢ Per Pound



	LME	US
14 Apr	34.8	38.0
7 Apr	35.5	38.0
Mar 75	36.4	38.0
Apr 74	78.9	34.8

TIN

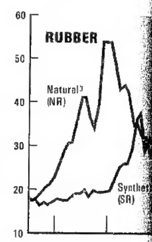
¢ Per Pound



	LME	US
14 Apr	319.5	355.0
7 Apr	327.2	360.0
Mar 75	334.8	366.0
Apr 74	417.3	440.8

RUBBER

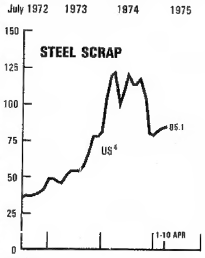
¢ Per Pound



	NR	SR
14 Apr	29.2	N.A.
7 Apr	29.2	N.A.
Mar 75	29.2	N.A.
Apr 74	42.8	25.7

STEEL SCRAP

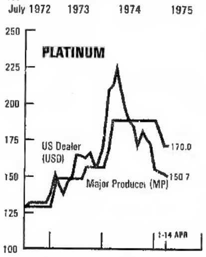
$ Per Long Ton



	US
10 Apr	86.33
7 Apr	84.33
Mar 75	84.20
Apr 74	123.10

PLATINUM

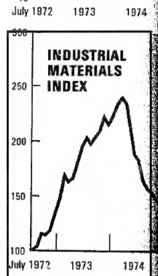
$ Per Troy Ounce



	MP	USD
14 Apr	170.0	145.0
7 Apr	170.0	153.5
Mar 75	170.0	152.7
Apr 74	190.0	227.5

INDUSTRIAL MATERIALS INDEX

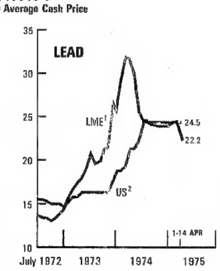
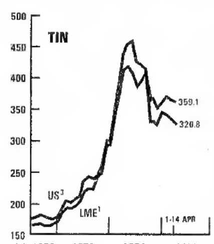
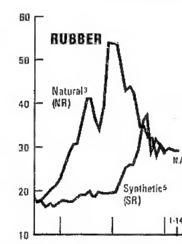
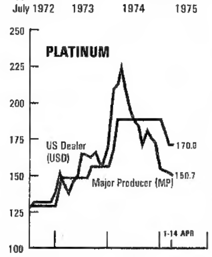
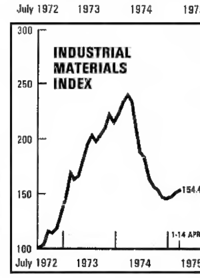
1970=100



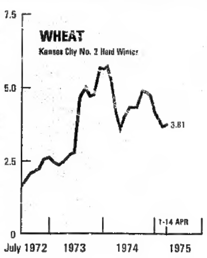
This is a compiled index by the Econo..ist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.
[5] ..ype styrene, US f.a.s. export price.

RICES Monthly Average Cash Price
LEAD ¢ Per Pound
TIN ¢ Per Pound
RUBBER ¢ Per Pound
PLATINUM $ Per Troy Ounce
INDUSTRIAL MATERIALS INDEX

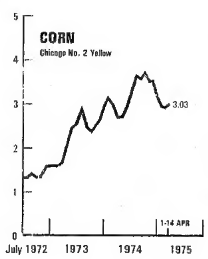






AGRICULTURAL PRICES Monthly Average Cash Price



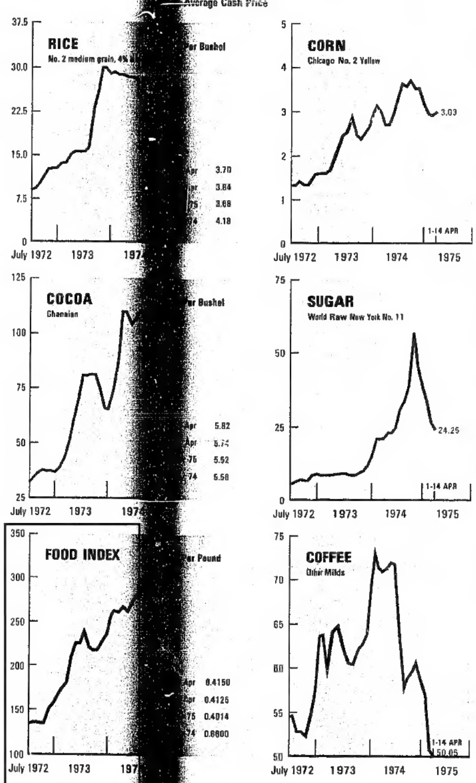
$ Per Bushel

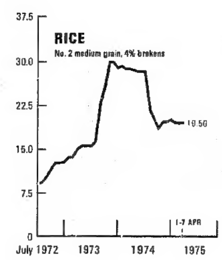
14 Apr	3.70
7 Apr	3.84
Mar 75	3.88
Apr 74	4.18



$ Per Bushel

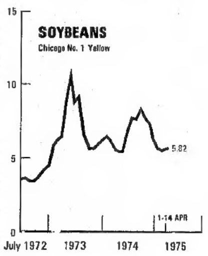
14 Apr	2.93
7 Apr	3.07
Mar 75	2.92
Apr 74	2.69





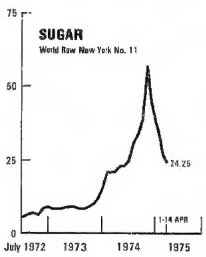
$ Per cwt.
f.o.b. mills, Houston, Tex.

7 Apr	19.50
31 Mar	19.50
Mar 75	19.50
Apr 74	29.00



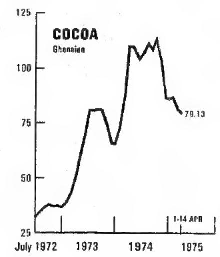
$ Per Bushel

14 Apr	5.82
7 Apr	5.74
Mar 75	5.52
Apr 74	5.56



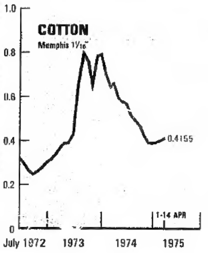
¢ Per Pound

14 Apr	25.75
7 Apr	23.00
Mar 75	26.71
Apr 74	21.70



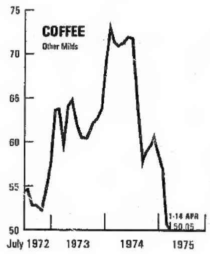
¢ Per Pound
New York price

14 Apr	75.00
7 Apr	81.75
Mar 75	81.88
Apr 74	110.20



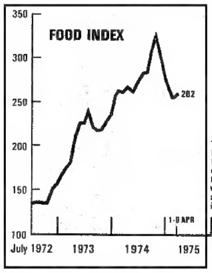
$ Per Pound

14 Apr	0.4150
7 Apr	0.4125
Mar 75	0.4014
Apr 74	0.6600



¢ Per Pound

14 Apr	48.25
7 Apr	50.50
Mar 75	50.83
Apr 74	70.73



1970=100

This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

585066 4-75